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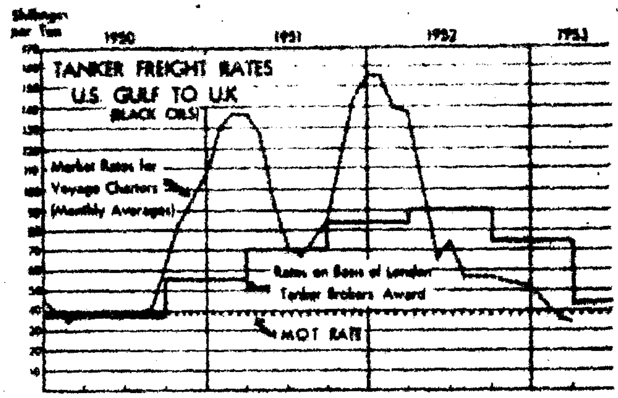
The Drop in Tanker Freights

THE substantial drop in the freight award of the London Tanker Brokers' Panel, which was recorded briefly in the April issue of the *Petroleum Press Service* (page 150), was not unexpected in view of the exceptional inactivity in the London tanker market during the past autumn and winter, which reflected not only a slowing down of the expansion of world demand for oil, but also a more than adequate number of tankers in prospect. Effective for six months from April 1st, the award was 22s. 3d. per d.w. ton per month, compared with 42s. 3d. awarded last October, and with 52s. on April 1st, 1952.

These awards, which are expressed in terms of a two-year time charter rate for a standard motor tanker of 12,000 tons d.w., have been used in recent years for calculating the freight charges applicable to oil industry transactions, and have been adopted in many countries for determining the freight component in internal selling prices for oil products. As was intended, the awards have proved a far more stable index of market conditions than "spot" rates, which, particularly when tonnage is short, are subject to wide and erratic fluctuations. Their relative stability is illustrated by the accompanying table and chart, which show that whereas spot rates within the past three years have been almost five times their present level, the equivalent award freights have been little more than twice the present rate. At the moment the spot rate is slightly lower than the award rate, but during the past three years the freight calculated on the award basis has on balance been the lower of the two, and at the same time its adoption has averted all the disturbances which sharp fluctuations involve. With boom conditions now definitely over, the award system will in future be judged in a different set of conditions—in a setting of small day-to-day market changes rather than sweeping rises and falls.

The recent weakness of tanker freights first appeared last autumn, when the higher seasonal demand, which is usual in the later months of the year, failed to develop. Lack of chartering on the normal scale was due to a combination of circum-



stances, the unexpectedly slow rate of expansion of world demand for oil products being accompanied by the restriction of merchandise imports in several important European and sterling area countries, which reduced the call for merchant shipping and therefore for the transport of marine fuel and diesel oils to bunkering ports.

A major factor in the weakness of the market was the exceptionally mild winter in North America and the consequent contraction of demand for tankers to carry crude and fuel oils from the Caribbean and U.S. Gulf to the U.S. East Coast. While the winter demand for tankers was slack, the heavy tanker building programmes undertaken in recent years, which raised the world's tanker fleet from 29.8 million to 32.6 million tons d.w. during 1952 alone, increased the volume of tanker tonnage available for charter, and will continue the process for a long time ahead. The very large building programmes now in hand exert a restrictive effect on market rates, since there is as yet no prospect of any large-scale scrapping of overage vessels, which in any case represent a comparatively small proportion of the world tanker fleet.

In contrast to the London market, U.S. tanker freights have recently been hardening, with charterers showing more interest. During the year to March last, the U.S. "spot" rate for voyages from the U.S. Gulf to the East Coast fell phenomenally from around

$8.30 per ton (190 per cent above the U.S. Maritime Commission's war-time rate of $2.85 for this trade) to $1.55 (U.S.M.C. minus 45 per cent). This rate was unremunerative for some U.S. vessels, and the laying-up of a few tankers has been reported. In the past month, demand in the U.S. East Coast trade has increased, and the rate has recovered to about $2.30 per ton (U.S.M.C. minus 20 per cent), but with the approach of summer, when tanker chartering usually slackens, this recovery would have to proceed a good deal further before it could be accepted as indicating a general revival of demand.

LONDON TANKER FREIGHTS

	Spot Market Rate (U.S. Gulf-U.K.) M.O.T. Rate Basis (b) Per cent above or below	Spot Market Rate (U.S. Gulf-U.K.) Per ton (c)	Brokers' Award (a) Per d.w. ton per month	Brokers' Award (a) Equivalent U.S. Gulf-U.K. Voyage Rate per ton (c), (d)
1949 April ..	−28	27s. 3d.	18s. 0d.	35s. 6d.
1950 April ..	+ 5	40s. 0d.	18s. 3d.	37s. 3d.
1951 April ..	+230	129s. 0d.	39s. 0d.	70s. 3d.
1952 Jan. ..	+306	154s. 3d.		
April ..	+160	98s. 9d.	52s. 0d.	90s. 9d.
July ..	+ 80	77s. 0d.		
Oct. ..	+ 45	54s. 0d.	42s. 3d.	79s. 6d.
1953 Jan. ..	+ 15	43s. 9d.		
Feb. ..	− 5	36s. 0d.		
March ..	− 11	33s. 10d.		
April ..			22s. 3d.	44s. 3d.

(a) Award for the following six months, based on two-year time charter rate.
(b) M.O.T. rate 38s. for dirty tankers.
(c) Per English ton of black oils carried
(d) Calculated on usual market formula, allowing for port charges and the cost of bunkers and stores, etc.

Many elements in the cost of tanker operation in both the U.S.A. and Europe have risen substantially since 1950, when freights were last down to a level comparable with that now ruling, and it remains to be proved at what level of rates, under present operating conditions, any considerable number of the older and least efficient vessels would be taken out of service. The withdrawal or continued operation of individual tankers might depend not only on chartering prospects and operating experience, but also on such factors as the extent to which the vessel concerned had been written down in the owner's books. But any further decline in rates will certainly bring into prospect the laying-up of tankers.